PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and it's Consolidated Subsidiaries
Financial Statements
March 31, 2006(Unaudited)

Contents

The Board of Directors' Report[1] on Corporate Affairs

We are pleased to present the Board of Directors' report on the affairs of Payton Planar Magnetics Ltd. and its consolidated subsidiaries for the three months ended on March 31, 2006.

1. A concise description of the corporation and its business environment

A. The Group

Payton Planar Magnetics Ltd. ("the Company") and its consolidated subsidiaries: Payton America Inc. ("Payton America"), Payton Planar Holdings (1996) Ltd. ("Payton Holdings").

B. The Group's main fields of activity and changes that occurred in the period from January to March 2006

The Company, an Israeli high-tech enterprise, develops, manufactures and markets Planar transformers worldwide. The company was founded in order to revolutionize the traditional approach to the design and manufacture of transformers through the concept of planar transformers. The invention is patented in North America, Europe and Japan. The Company completed its initial public offering, in 1998, on the Euro.NM (Today Euronext Stock Exchange).

C. Principal customers

The consolidated sales revenues include sales to major customers (which make up in excess of 10% of the sales of the Group).

	For the three-month period ended March 31	For the year ended December 31	For the three-month period ended March 31
	2006	2005	2005
Customer A	11.9%	14.7%	12.9%
Customer B	*	*	14.8%
Customer C	15.7%	17.4%	13.5%

* Less then 10% of the Company's consolidated sales

D. Marketing

On March 2006 the Company participated in: "APEC 2006" exhibition in Dalas Texas, U.S.A. in "Electronica & Productronica China 2006 with PCIM" exhibition in Shanghai, China, in "Del Mar" exhibition in California, U.S.A and in "Electronica" exhibition in Tel-Aviv, Israel.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of March 31, 2006 were USD 5,206 thousand (December 31, 2005 - USD 3,620 thousand). The backlog is composed only of firm orders.
Management estimates that most of the backlog as of 31.3.06 will be supplied until the end of first quarter 2007.

2. Financial position

A. Balance Sheet as at March 31, 2006.

[1] The financial statements as at March 31,2006 form an integral part thereof.

Cash and cash equivalents including Short-term Deposits – these two items amounted to a total of USD 5,331 thousand at March 31, 2006 compared to USD 4,211 thousand as at December 31, 2005 and USD 2,894 thousand at March 31, 2005. This increase in resulted mainly of the net income for the period.
An amount of USD 550 thousands out of the Short-term deposits serves as a back-to-back guaranty against the short-term loan.

Trade accounts receivable, net – these amounted to USD 2,746 thousand at March 31, 2006 compared to USD 3,151 thousand as at December 31, 2005 and USD 2,123 thousand at March 31, 2005. The decrease in this item as of March 31, 2006 compare with 31.12.05 is mainly due to a decrease in the sales volume in the first quarter of 2006 compare with the last quarter of 2005.

Deferred Taxes – As of March 31, 2006, these amounted to USD 523 thousands. A net increase USD 80 thousands compare with December 31, 2005 resulted of reassessed estimations in respect of previously unrecognized deferred tax assets related to the carryforward of unused tax losses (See note 2D to the Financial Statements).

Short-term bank credit – these amounted to USD 490 thousand at March 31, 2006 compared to USD 580 thousand as at December 31, 2005 and USD 925 thousand at March 31, 2005. The decrease in this item is due to a decrease in short term bank credit and gradual monthly repayments of short-term bank loan.

Trade payables - these amounted to USD 1,044 thousand at March 31, 2006 compared to USD 1,223 thousand as at December 31, 2005 and USD 893 thousand at March 31, 2005. The decrease in this item as of March 31, 2006 compare with 31.12.05 resulted mainly due to a decrease in the volume of materials purchased in the first quarter of 2006 compared with the last quarter of 2005.

B. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 1-3/06	Quarter 10-12/05	Quarter 7-9/05	Quarter 4-6/05	Quarter 1-3/05
Sales revenues	3,670	4,056	3,353	2,747	2,787
Cost of sales	2,030	2,193	1,790	1,555	1,537
Gross profit	*1,640*	*1,863*	*1,563*	*1,192*	*1,250*
Development costs	129	116	120	117	116
Selling & marketing expenses	299	322	251	264	288
General & administrative expenses	408	375	339	292	332
Operating income	*804*	*1,050*	*853*	*519*	*514*
Net financial result	47	(9)	(6)	(35)	(30)
Net operating profit after financial result	*851*	*1,041*	*847*	*484*	*484*
Other income (expense)	-	2	-	3	(1)
Profit before taxes on income	*851*	*1,043*	*847*	*487*	*483*
Taxes on income	80	443			
Net profit for the year/ period	*931*	*1,486*	*847*	*487*	*483*

The Group's sales revenue for the three-month period ended March 31, 2006 were USD 3,670 thousand compared with USD 2,787 thousand in the three-month period ended March 31, 2005 (an increase of 31.7%), and compared with USD 4,056 thousand in the three-month period ended December 31, 2005 (a Decrease of 9.5%).

Gross result – The Group's gross margin remained about the same level in the first quarter of 2006 and in the first quarter of 2005 (about 45%), a slight decrease (about 1%) compare to the gross margin in last quarter of 2005.

Development costs – Payton's R&D strategy is aimed on maintaining the leadership of planar technology. The R&D department works in conjunction with R&D departments of the forerunners of today's global technology, and together they define tomorrow's technological needs. Costs were based upon time expended by the department's employees. The group's development costs for the three-months period ended March 31, 2006 were USD 129 thousand.

Selling & marketing expenses – Group's selling & marketing expenses are based on the management policy and are not related to sales, except sales commissions to the Group's reps' that are calculated as a portion of sales. The Group's marketing efforts are concentrated through participation in major power electronic shows throughout the world and by collaborating with its worldwide rep's Network.

General & Administrative expenses – The Group's General & Administrative expenses for the three-month period ended March 31, 2006 were USD408 thousand compared with USD 375 thousand in the three-month period ended December 31, 2005, and with USD 332 thousand in the three-month period ended March 31, 2005.
The increase in these expenses at the first quarter of 2006 compared with the last quarter of 2005 is mainly due to the Company's share increase in the allocation of its Parent Company joint G&A expenses (See note 2A to the attached financial statements).

Taxes on income – In the first quarter of 2006 the group recognized a net deferred tax asset amounting USD 80 thousand generated from updating the net tax assets. (See also "*Deferred Taxes* " above).

3. Liquidity

A. Liquidity Ratios

The following table presents the financial ratios in the balance sheet:

Payton Planar Magnetics Ltd. Consolidated financial ratios			
	March 31, 2006	**December 31, 2005**	**March 31, 2005**
Current ratio[2]	4.05	3.42	2.56
Quick ratio[3]	3.42	2.81	1.93

B. Cash flow provided by operating activities

Cash flow provided by operating activities for the three-month period ended March 31, 2006 amounted USD 1,243 thousand, compared with the cash flow provided for operating activities of USD 973 thousand for the three-months period ended March 31, 2005. The Increase in Cash flow provided by operating activities resulted mainly of the increase in the net profit for the period, which was shorten by a decrease in trade payables.

C. Cash flow used for investing activities.

Cash flow used for investment activities in the three-month period ended March 31, 2006, amounted USD 423 thousand, compared with cash flow used for financing activities of USD 59 thousand in the three-month period ended March 31, 2005.
Cash flow used for investing activities in the first quarter of 2006 resulted mainly from investments in deposits.

D. Cash flow used for financing activities.

[2] Current ratio calculation – Current assets / Current liabilities
[3] Quick ratio calculation – (Current assets – Inventories) / Current liabilities

Cash flow used for financing activities in the three-month period ended March 31, 2006, amounted USD 90 thousand, compared with cash flow used for financing activities of USD 375 thousand in the three-month period ended March 31, 2005. In the three-months period ended March 31, 2006 the cash flow used for financing activities result from monthly repayments of short-term bank loan.

4. Financing sources

The Group financed its activities during the reported periods from its own resources and from credit facility taken from a bank.

5. External factors effects

To the best of the Board of Directors' and management's knowledge, there have been no significant changes in external factors that may materially effect the Company's financial position or results of operations.

The Company's Board of Directors wishes to thank our shareholders for their continuance trust and belief.

The Company's Board of Directors wishes to extent its sincere thanks to the entire personnel of for their efforts and contribution to the Group's affairs.

David Yativ
Chairman of the Board of Directors
and C.E.O.

Rishon Lezion, May 25, 2006.

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Review Report to the Board of Directors
Payton Planar Magnetics Ltd.

We have reviewed the accompanying condensed interim consolidated balance sheet of Payton Planar Magnetics Ltd. as at March 31, 2006 and the related condensed consolidated interim statements of income, changes in shareholder's equity and cash flows for the three-month period then ended (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. Our responsibility is to express a conclusion on these interim financial statements based on our review.

We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identifiable in an audit . Accordingly, we do not express an audit opinion.

We received review report of another auditor regarding the interim financial statements of a subsidiary whose assets constitute 7.7% of the total consolidated assets as at March 31, 2006 and whose revenues constitute 12.8% of the total consolidated revenues for the three month period then ended.

Based on our review, including the reading of the review report of the other auditor as stated above, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Somekh Chaikin
Certified Public Accountants (Isr.)
(A member of KPMG International)

May 25, 2006

Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of KPMG International, a Swiss cooperative.

Condensed Interim Consolidated Balance Sheets

	March 31 2006	March 31 2005	December 31 2005
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current Assets			
Cash and cash equivalents	**3,912**	2,032	3,182
Short-term deposits	**1,419**	862	1,029
Trade accounts receivable	**2,746**	2,123	3,151
Other accounts receivable	**177**	159	176
Inventory	**1,529**	1,680	1,635
Total current assets	**9,783**	6,856	9,173
Non-current assets			
Deposits	**6**	256	6
Other investment	**348**	348	348
Property, plant and equipment, net	**544**	655	562
Deferred taxes	**523**	-	443
Total non-current assets	**1,421**	1,259	1,359
Total assets	**11,204**	8,115	10,532

David Yativ Chief Executive Officer and Chairman of the Board of Directors	Michael Perez Director	Michal Lichtenstein V.P. Finance & CFO

May 25, 2006

	March 31 2006	March 31 2005	December 31 2005
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Liabilities and shareholder's equity			
Current liabilities			
Short-term bank credit	**490**	925	580
Trade payables	**1,044**	893	1,223
Other payables	**881**	864	883
Total current liabilities	**2,415**	2,682	2,686
Non-current liabilities			
Loan from Payton Industries Ltd. - parent company	**406**	814	406
Liability for employee severance benefits, net	**110**	114	104
Total long-term liabilities	**516**	928	510
Shareholders' equity			
Share capital	**4,819**	4,819	4,819
Share premium	**9,014**	8,997	9,008
Accumulated deficit	**(5,560)**	(9,311)	(6,491)
Total shareholders' equity	**8,273**	4,505	7,336
Total liabilities and shareholders' equity	**11,204**	8,115	10,532

The accompanying notes are an integral part of the financial statements.

Condensed Interim Consolidated Statements of Income

	Three months ended March 31		Year ended December 31
	2006	2005	2005
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Revenues	**3,670**	2,787	12,943
Cost of sales	**(2,030)**	(1,537)	(7,075)
Gross profit	**1,640**	1,250	5,868
Development costs	**(129)**	(116)	(469)
Selling and marketing expenses	**(299)**	(288)	(1,125)
General and administrative expenses	**(408)**	(332)	(1,338)
Operating profit	**804**	514	2,936
Net financial result	**47**	(30)	(80)
Other (loss) income	**-**	(1)	4
Profit before income taxes	**851**	483	2,860
Income taxes	**80**	-	443
Net profit for the period	**931**	483	3,303
Basic and diluted earnings per ordinary share (in US$)	**0.053**	0.027	0.188

The accompanying notes are an integral part of the financial statements.

Condensed Interim Statement of Changes in Shareholders' Equity

	Share capital				
	Number of shares	Amount	Share premium	Accumulated deficit	Total
		US$ thousands			
Balance at January 1, 2006 (Audited)	**17,600,000**	**4,819**	**9,008**	**(6,491)**	**7,336**
Capital reserve from transaction with controlling shareholder	**-**	**-**	**6**	**-**	**6**
Net profit for the period	**-**	**-**	**-**	**931**	**931**
Balance at March 31, 2006 (Unaudited)	**17,600,000**	**4,819**	**9,014**	**(5,560)**	**8,273**
Balance at January 1, 2005 (Audited)	17,600,000	4,819	8,986	(9,794)	4,011
Capital reserve from transaction with controlling shareholder	-	-	11	-	11
Net profit for the period	-	-	-	483	483
Balance at March 31, 2005 (Unaudited)	17,600,000	4,819	8,997	(9,311)	4,505
Balance at January 1, 2005 (Audited)	17,600,000	4,819	8,986	(9,794)	4,011
Capital reserve from transaction with controlling shareholder	-	-	22	-	22
Net profit for the year	-	-	-	3,303	3,303
Balance at December 31, 2005 (Audited)	17,600,000	4,819	9,008	(6,491)	7,336

The accompanying notes are an integral part of the financial statements.

Condensed Interim Consolidated Statements of Cash Flows

	Three months ended March 31		Year ended December 31,
	2006	**2005**	**2005**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	US$ thousands	**US$ thousands**	**US$ thousands**
Net operating activities			
Net profit for the period	**931**	483	3,303
Adjustments to reconcile net result to net cash used for operating activities:			
Depreciation	**50**	63	233
Capital loss (gain) on sale of equipment	**-**	1	(4)
Increase (decrease) in employee severance benefits, net	**6**	5	(5)
Decrease (increase) in trade receivables	**405**	482	(546)
(Increase) decrease in other accounts receivables	**(1)**	45	28
Decrease (increase) in inventory	**106**	(30)	15
(Decrease) increase in trade payables	**(178)**	4	332
Decrease in other payables	**(2)**	(91)	(72)
Deferred taxes	**(80)**	-	(443)
Finance expenses from transactions with controlling shareholders	**6**	11	44
Cash flows provided by operating activities	**1,243**	973	2,885
Investing activities			
Investment in property, plant and equipment	**(33)**	(53)	(139)
(Investment in) proceeds from deposits, net	**(390)**	(12)	71
Proceeds from sale of equipment	**-**	6	22
Cash flows used for investing activities	**(423)**	(59)	(46)
Financing activities			
Short-term bank credit, net	**(90)**	(375)	(720)
Repayment of loan to parent company	**-**	-	(430)
Cash flows used for financing activities	**(90)**	(375)	(1,150)
Increase in cash and cash equivalents	**730**	539	1,689
Cash and cash equivalents at beginning of period	**3,182**	1,493	1,493
Cash and cash equivalents at end of period	**3,912**	2,032	3,182

Appendix A - Non-Cash Activities

Purchase of property and equipment	**7**	6	8
Capital reserve from transactions with controlling shareholder	**6**	11	22

Supplementary disclosure

Interest paid	**2**	9	35

Note 1 - General

A. Payton Planar Magnetics Ltd. ("the Company") was incorporated in December 1992. The Company is a subsidiary of Payton Industries Ltd. (the "Parent Company").

B. The Company develops, manufactures and markets planar power transformers for high density, high frequency off-line power supplies and operates abroad through its subsidiaries and distributors. Its manufacturing includes the manufacture of printed circuits.

Note 2 - Financial Reporting and Accounting Policies

A. The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) 34 "Interim Financial Reporting". They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements as at December 31, 2005.

B. The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied in the consolidated financial statements as at December 31, 2005.

C. Results of operations for the three-month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

D. The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2005.

During the three months ended March 31, 2006, management reassessed its estimates in respect of previously unrecognized deferred tax assets related to the carryforward of unused tax losses. Previously unrecognized tax losses were recognized in the current period as management now considers it probable that future taxable profits will be available against which they can be utilized.

E. Until December 31, 2005, the joint general and administrative expenses (the expenses) of the Company and of Payton Technologies Ltd. (a subsidiary of the parent company) were allocated 75% to the Company and 25% to Payton Technologies Ltd. Beginning January 1, 2006, due to an increase in the business activity of the Company, the allocation was changed so that 85% of the expenses are allocated to the Company and 15% to Payton Technologies Ltd.

Note 3 - Operating Segments

Segment information, according to the revised IAS 14, is presented in respect of the Group's geographical segments, which is based on the Group's management and internal reporting structure.

The primary format of reporting segment information is geographical based on location of customers.

	Three months ended March 31, 2006 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	**1,766**	**809**	**1,095**	**3,670**
Segment result	**387**	**177**	**240**	**804**

	Three months ended March 31, 2005 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	1,497	659	631	2,787
Segment result	276	122	116	514

	Year ended December 31, 2005 (Audited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	5,697	3,067	4,179	12,943
Segment result	1,292	696	948	2,936